

THE VIABILITY OF FREE TRADE

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Abstract

Princeton economist, Alan Blinder once proposed Murphy's Law of economic policy: "Economists have the least influence on policy where they know the most and are most agreed; they have the most influence on policy where they know the least and disagree most vehemently." (Blinder, 1988).

This article is an economic analysis on the sustainability of free trade policies within the United States in the long run. An evaluation of the two primary presidential candidates, Hillary Clinton and Donald Trump concerning their stance on free trade strategies will be studied in this piece. From an economics perspective, will the ideals and economic advantages of free trade be supported or refuted under the new presidential leader? A new presidential era will begin in November, 2016 and it is crucial to take an in-depth look at how international trade, globalization, and world development will be affected. From a theoretical standpoint the benefits of free trade typically resonates a unified stance among most economists. With politicians, the rationale becomes a bit more skewed from theory.

First, this study will compare the two presidential candidates' viewpoints and their future plans regarding free trade. Secondly, a depiction of an economic cost/benefit model of free trade and its viability in the long run will be assessed. Thirdly, specific plans being supported by the candidates will indicate anti-free trade aspects, and potential negative consequences on global economic growth and development.

At a Glance

The historical divide between Republicans and Democrats in the area of free trade has been long standing. Typically, Republicans have been strong supporters of free trade, arguing for the removal of trade barriers, and advocates of globalization. Conversely, Democrats emphasize the cost of free-trade policies stating the loss of American jobs, and argue for more protectionist measures. The following positions indicate comments made by both Trump and Clinton regarding free trade. The similarities between the two give rise for concern from an economics perspective as well as from a political one as well.

"Donald Trump argues for protectionism and asserts that free-trade policies were responsible for the collapse of the American manufacturing industry. In a speech on Tuesday, June 28th, 2016, Trump denounced "a policy of globalization". [Jacobs, 2016]. In addition, Trump highly advocates pulling out of the North American Free

Trade Agreement (NAFTA) or imposing a 35 percent tariff on items imported from Mexico (Margolis, 2016). In addition, he proposes to withdraw from the Trans-Pacific Partnership (TPP) or impose a 45 percent tariff rate on imports from China, (Margolis, 2016). These actions could potentially instigate a trade war with China that could bring about even higher retaliation tariffs. These items cumulatively are the anti-thesis of one that claims to be a “free-trade” supporter. As the Republican front-runner, these radical viewpoints from the candidate cause concern among many in the party.

“Hillary Clinton believes in “the power of the state to pick winners and losers, rather than allowing free markets to drive innovation and success. She is a strong supporter of agricultural subsidies, price controls, nationalizing mortgage lending and bailing out banks.” [Council on Foreign Relations, May 2016]. Ironically, in Clinton’s tenure as a U.S. Senator she voted for every trade agreement. However, she did vote against President George W. Bush’s Central American Free Trade Agreement (CAFTA) citing the “harm outweighed the good, and Americans could lose their jobs” (Phillis, 2015). She believes that properly negotiated trade agreements can increase living standards. Clinton also opposes the Trans-Pacific Partnership (TPP). She instead supports trade agreements that would raise wages, increase prosperity, create more new, good jobs for Americans, and protect our security (Phillips, 2015). Clinton’s stance on many items, including international/free trade appear to wax and wane depending on the constituents involved. Cillizza (2015) sites that her inconsistencies may be a wise political move to convince voters, she has obtained further information on important issues, and thus alters her opinion and vote.

The comparison and contrast between the two main Presidential candidates; however, only in one specific area sheds light on the extreme diversity and controversy on the topic of free trade. It is quite evident, that economic theory is not the resounding factor in the platforms of these politicians, perhaps their own self-interest in acquiring the Presidential Office is dominant. This is not a newly discovered fact, but one that solidifies the ideals of each political party assumes their endorsed candidate follows their same nomenclature. This is yet one small item that indicates this is not the case. The issue of “uninformed voters” or “rational ignorance” is beyond the scope of this piece but remains an item of concern in the coming months of deciding upon a new United States President.

Economists’ stand united on the issue of trade. It is no different that nations benefit from free trade, similar to its own citizens trading amongst one another, unencumbered. The political platform of the next U.S. President has large ramifications on the direction of international trade and globalization. Caplan (2007) points out 3 key areas that divide economic rationale and political ideologies. First,

is anti-foreign bias, individuals often view international trade as having winners and losers, or their country competes with a nation for which it trades and does not realize the costs and benefits. This is not the case, many underestimate the long run benefits from international trade, there are indeed short-term losers, but in the long-run, the gains can be positive for both nations. Second, is anti-market bias. The market is an efficient and impersonal allocator of resources, and a strong signal in the determination of prices. Again, citizens underestimate the power of a market. However, the comparable planned or command economy has been proven to allocate resources poorly. Third, is a make-work bias. Individuals assume if free trade is allowed, and jobs are moved overseas this means a loss of jobs at home, they fear imports will destroy their income and security. In the long-run economic growth comes from ways to reduce labor input and redirect workers to new, better, growing industries that will allow the worker and the nation to improve.

As with many issues in economics, the time factor impedes many from accepting key economic theories. The benefits that accrue from free trade are not instantaneous and can take years to fully realize. It takes a wise citizen-base as well as wise political decisions to guarantee the success of a nation in the area of international trade.

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Keywords: international trade, free trade, politics, protectionism, 2016 -Presidential Elections.

Relevance to Marketing Educators, Researchers, and Practitioners: This paper serves as an integral piece to educate all based on the ramifications of political candidates and their impact in globalization and economic growth.

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TRACK: Global Marketing